EXECUTIVE SUMMARY

In 2005 Indonesia ranked twentieth among world oil producers, with approximately 1.4 percent of the world's daily production. At an unofficial 1.06 million barrels of oil per day (b/d) by the end of 2005, Indonesia's production of crude oil and condensate continued the multi-year trend of gradual decline from 1.09 million b/d in 2004, 1.15 million b/d in 2003, and 1.25 million b/d in 2002. Indonesia's oil reserves are approximately 9.7 billion barrels.

Indonesia ranks eighth in world gas production, with proven and potential reserves of 170-180 trillion cubic feet (TCF). Indonesia produced 3.16 TCF of gas in 2003, declining to about 3.03 TCF in 2004. Indonesia was the world's largest exporter of liquefied natural gas (LNG) at 25.2 million metric tons (MT) in 2004, the last year for which official statistics were available. Its 18.8 percent share of the world market is declining under pressure from new production in Qatar, Australia and Russia. Unofficial statistics and press reports suggest that Qatar overtook Indonesia as the world's largest exporter in April 2006.

Despite the gradual decline in oil production, the industry remains a key sector in Indonesia's economy that generates strong cash flows. In 2005, oil and gas contributed $19.2 billion or 22 percent of total export earnings and about 24 percent of government budget revenue. Though significant, this contrasts starkly with 1990, when the oil and gas sector contributed 43% of export earnings and 45% of government revenues.

The government reduced its assumption for crude oil production in the 2006 budget to 1.05 million b/d. That budget also assumes an exchange rate of Rp 9,900/US$ and an oil price of $57/barrel. Actual Indonesian crude oil prices averaged $65.01 during the first five months of 2006, with a high of $70.31 during April 2006.

As a symbol of its commitment to sound macroeconomic policy as the basis for sustainable growth and economic development, the government reduced fuel subsidies across the board first in March 2005 and again in October 2005. Nonetheless high global oil prices raised the actual 2005 fuel subsidy to Rp 76.5 trillion.

Upstream and downstream oil and gas deregulation continues as required by Law 22/2001, which replaced the 1960 Oil and Gas Law and the Law for Pertamina 8/1971. The new law mandated the end of Pertamina's monopoly over downstream oil distribution and marketing of fuel products and shifted regulatory functions to the central government. The government issued the upstream and downstream implementing regulations in 2004.

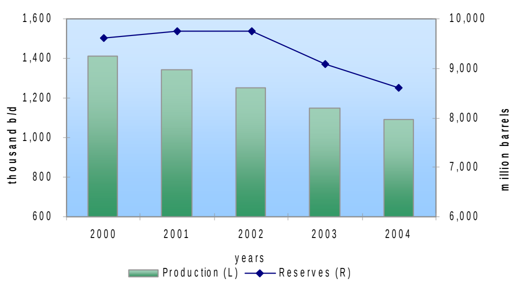
The new law created two new governmental bodies: the Upstream Executive Body (BPMIGAS) that takes over Pertamina's upstream functions and the Downstream Regulatory Body (BPH MIGAS) that supervises downstream operations. BP Migas commenced operations in July 2002, taking over Pertamina's upstream regulatory functions and management of oil and gas contractors. BPH MIGAS started work in December 2002.

In 2004 – 2005

- The dollar value of oil and gas exports increased to $19.2 billion in 2005 from $17.6 billion in 2004, compared with $15.2 billion in 2003.
- Oil and gas imports also increased to 17.4 billion in 2005 from $12.1 billion in 2004, compared with $8.4 billion in 2003.
- The government issued implementing Regulations 35 and 36 in 2004 for the upstream and downstream oil and gas sectors.
- In November 2005, Shell opened Indonesia's first private retail fuel station in Tangerang, West Java.

Crude Oil

Production and Reserves
2000 – 2004



2004

Reserves	: 8.6 billion barrels
Production	: 1.09 million b/d
Export revenue	: $6.2 billion

Indonesia's crude oil production continued to decline in 2005 to an unofficial average of 1.06 million b/d. In 2004, Indonesia produced an average of 1.09 million b/d, down 7.8 percent over the previous year's level of 1.15 million b/d. Falling output by most of the country's major producers accounted for the 17,500 b/d production drop in 2004. Foreign PSCs accounted for 88% of Indonesia's crude output in 2004.

Petroleum companies increased their exploration spending by 4.7 percent in 2004 to $5.56 billion from $5.31billion in 2003. The number of new exploration and appraisal wells drilled in 2004 was up slightly to 36 wells from 33 in 2003, but still a precipitous decline from the 145 wells drilled in 1998.

ChevronTexaco acquired Unocal in August 2005 after CNOOC decided to withdraw its takeover bid. The company shortened its corporate name to Chevron and extended it to all its geographic units, including its Indonesian subsidiaries, the former Caltex and Unocal entities.

On March 15, 2006 ExxonMobil and Pertamina signed an agreement concluding negotiations on the joint operating agreement for the Cepu block in East Java. Officials from both companies say oil and gas could start flowing from the block in 2008.

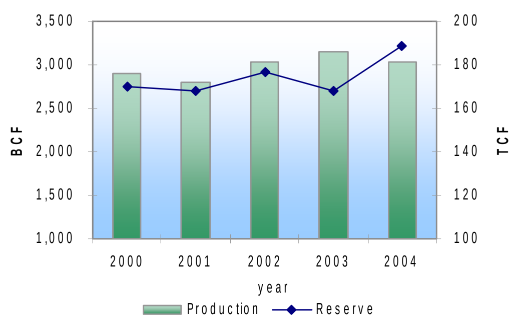
The GOI awarded 9 new production sharing contracts in 2005, compared with 16 in 2004, and 15 in 2003, down from a record 29 contracts in 1997. Major international and U.S. companies were largely absent from the bidding on these new exploration blocks. The government had planned to award a new round of tenders in December 2005, but had not yet done so when this report went to press in late March 2006.

Indonesian crude producers profited from high world oil prices, which averaged $53.10 per barrel in 2005 for SLC, significantly above the 2004 average price of $36.60 per barrel and the 2003 price of $18.00. As a result of OPEC decisions to increase oil production, Indonesia's quota increased from 1,270 mbpd in November 2003 to 1,451 mbpd in July 2005. Indonesia did not benefit from OPEC's quota increases since it has produced well under its quota throughout this period.

Indonesia's major crude oil customers (in rank order) were Japan, South Korea, China, Australia and the United States. Indonesia's overseas markets generally showed a decline in sales in 2004 with the exception of South Korea, USA and Taiwan.

Natural Gas

Reserves and Production
2000 – 2004



2004

Reserves	: 188.3 TCF
Production	: 3,030 BCF
Export revenue	: $8.1 billion

Indonesia has natural gas reserves of over 188.3 TCF – 97.7 TCF proven and 90.6 TSCF probable/possible. Indonesia's largest producers (in order) are Total, ExxonMobil, Pertamina, Vico, ConocoPhillips and BP, all of which operate under production sharing contracts and account for 90 percent of the country's total production.

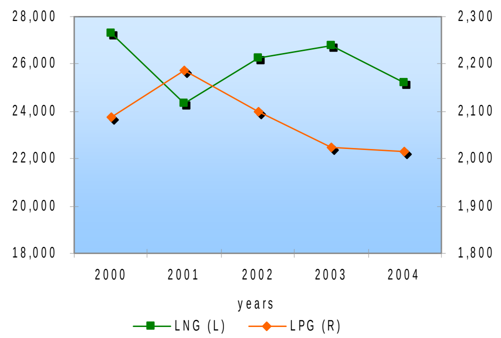
Indonesia, which traditionally exports gas in the form of LNG, started natural gas pipeline exports to Singapore in January 2001 and inaugurated the Sumatra-Singapore pipeline in late 2003. Pipeline gas exports reached 129 BCF in 2004, valued at $8.1 billion. The major uses for Indonesia's natural gas are LNG and LPG production, followed by domestic power generation, and fertilizer and petrochemical production.

LNG and LPG

Indonesia remained the world's leading exporter of LNG in 2005, with 18.8 percent of the world market. LNG production at Arun and Badak (Bontang) was 25.5 million metric tons (MT) in 2004, a decrease from the 2003 production level of 26.4 million MT. Japan, South Korea and Taiwan were the key markets for LNG. Press reports indicated that Qatar overtook Indonesia as the top LNG exporter in April 2006.

LPG production declined slightly to 2.016 million MT in 2004 from 2.023 million MT in 2002, while exports to the four top customers -- Japan, Hong Kong, Taiwan and Australia -- dropped to 850,000 MT.

LNG and LPG Production 2000 - 2004
(in 1,000 tons)



Construction of the Tangguh LNG plant in Papua is underway following the GOI's final approval in March 2005. Beyond the initial commitments from original buyers, the project secured an additional 1.35 million MT per year commitments in 2004 with South Korea's POSCO and K Power.

As of March 2006, talks with Japanese buyers to extend 12 million MT worth of LNG contracts set to expire in 2010 are awaiting a GOI decision on its domestic gas policy. Tight production levels and high demand from fertilizer plants may cause the GOI and some PSCs to divert a portion of their LNG export cargoes to the domestic market.

Refining and Imports

Indonesia has an installed refining capacity of approximately 1.056 million b/d at nine state-run refineries. Capacity utilization was 94.7 percent through the end of 2004.

Indonesia's crude oil imports rose to 148.5 million barrels in 2004, largely from Saudi Arabia and Nigeria. Fuel product imports rose to 124.9 million barrels in 2004 from 106.4 in the previous year.

Growing domestic consumption combined with limited capacity at Indonesia's nine refineries account for the increase in crude oil and fuel product imports. Domestic fuel consumption increased to 64.7 million kiloliters in 2004, about 4.8 million kiloliters higher than 2003. Pertamina has experienced difficulty in coping with the high level of recent demand. Additionally, problems in arranging financing to cover fuel import purchases led to shortages of diesel fuel, kerosene and gasoline in mid 2005.

Petrochemicals

The petrochemical industry has yet to recapture its pre-Crisis dynamism. No new plants were completed during the past two years, while the country's import of petrochemical product increased. However, the resumption of the Tuban petrochemical project in 2004 signaled the stirrings of a slow recovery for the industry. Lack of gas also hindered fertilizer production and resulted in the suspension of production at Pupuk Iskandar Muda, PIM I and liquidation of the ASEAN Aceh Fertilizer plant (AAF) in 2005.

Regional Autonomy

On January 1, 2001, Regional Autonomy Law 22/1999 and Fiscal Decentralization Law 25/1999 came into effect. Law 25/1999 contains formulas for sharing revenue between the central government and various regional authorities. On October 15, 2004, the GOI amended these laws with Regional Autonomy Law 32/2004 and Fiscal Decentralization Law 33/2004 to further clarify the roles of central and regional authorities. These new laws also changed the revenue sharing splits between the central government and regional authorities. They also contained more detailed procedures for revenue sharing and regional autonomy implementation. Regulation 55/2005, issued on December 9, 2005, implemented the new laws.

Shares of state revenue* before and after Law No. 25/1999

Type of revenue	Central Govt.	Province	Regencies
Before (%):			
- Oil	100	-	-
- Natural gas	100	-	-
- Mining land rent	20	16	64
- Mining royalties	20	16	64
- Land/building tax	10	16.2	64.8
- Duties on land/ building acquisition	20	16	64
After (%):			
- Oil	85	3	12
- Natural gas	70	6	24
- Mining land rent	20	16	64
- Mining royalties	20	16	64
- Land/building tax	10	16.2	73.8
- Duties on land/ building acquisition	20	16	64

* State revenue refers to net oil and gas profits after PSC share and cost recovery are deducted. Special autonomy provisions for Aceh and Papua give those provinces 70 % of net oil and gas profits after PSC share and cost recovery, with the remaining 30% to the government.

A persistent problem has been the misunderstanding of the calculations of oil and gas revenues by sub-national government officials, which has led many regional administrations and their citizens to overestimate the value of future transfers. To clarify the regions' share of oil and gas revenues, the Ministry of Finance began the practice in 2005 to issue a yearly decree estimating the allocation of oil and gas revenues to the all of the provinces, regencies, and cities.

Major Events in Indonesia

Year	Events
1890	Telaga Said production field sold to a company that later merged to form Royal Dutch Shell. First production was in 1892.
1912	Standard Oil of New Jersey through its Dutch subsidiary received permission to explore for oil in South Sumatra.
1921	The Talang Akar field discovered, which proved to be the biggest find before WWII.
1942	Japanese took over most oil fields during WWII and slow production
1944	Caltex' Minas field discovered. Largest oil field in Southeast Asia
1945	Indonesia declared independence from The Netherlands
1961	Government signs first PSC, with Asamera for the Block A PSC in Aceh.
1962	Pan American Oil Company signed the first contract of work with Pertamina.
1962	Indonesia joined OPEC
1968	National oil companies Pertamina and Pertamina merged to form Pertamina
1978	First LNG plant entered production
2001	The Government revised Oil and Gas Law
2002	Upstream and Downstream bodies formed.
2003	Pertamina becomes a limited liability company.
2004	GOI issued upstream and downstream implementing regulation, Regulation No. 35 and 36 respectively.
2005	The first private retail fuel station opened in Indonesia.